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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, NOVEMBER 30, 2000

APPLICATION OF

SOUTHERN ENERGY POTOMAC RIVER, LLC

CASE NO. PUE000547

For a certificate of public
convenience and necessity:
Potomac River Station

PETITION OF

POTOMAC ELECTRIC POWER COMPANY

and

CASE NO. PUA000078

SOUTHERN ENERGY POTOMAC RIVER, LLC

For authority to acquire and
dispose of utility assets:
Potomac River Station

ORDER GRANTING APPLICATION AND PETITION

On September 25, 2000, Potomac Electric Power Company ("PEPCO") and Southern Energy Potomac River, LLC ("SE-Potomac River"), filed their Joint Application of Potomac Electric Power Company and Southern Energy Potomac River, LLC ("Joint Application"). As required by the Utility Transfers Act, §§ 56-88 through 56-91 of the Code of Virginia, PEPCO seeks authority from the Commission to sell the generating units and related facilities at its Potomac River Station, Alexandria, Virginia, and to lease the land upon which the facilities are located. PEPCO has contracted to sell generating facilities in Maryland

and Virginia, including the facilities covered by this application, to Southern Energy, Inc. At the closing of the transaction, Southern Energy, Inc., will assign its rights in the Potomac River Station to its SE-Potomac River subsidiary. SE-Potomac River seeks Commission authorization to purchase the generating and related facilities and to lease the land. In the Joint Application, SE-Potomac River also applied for a certificate of public convenience and necessity authorizing the acquisition and operation of these facilities at Potomac River Station. PEPCO sought modification of its certificate to reflect the transaction. As set out in this order, the Commission will grant the requested authority and certificates.

In our Order for Docketing and Notice of Notice of October 20, 2000, as modified in the Order Revising Schedule of October 24, 2000, the Commission docketed the Joint Application and directed the applicants to give notice. We also directed the Commission Staff to investigate the application and to file a report. We found that the Joint Application raised an issue of the interpretation of §§ 56-265.2 and 56-580 of the Code of Virginia. The Commission directed the Staff, PEPCO, and SE-Potomac River to address the interpretation of these provisions in memoranda.

PEPCO and SE-Potomac River filed on October 30, 2000, a certificate of publication of notice in a newspaper circulating

in Alexandria. The applicants also filed a certificate of service of copies of the application and posting. The Commission finds that reasonable notice of the Joint Application was given.

In response to the notice, the Commission received on November 7, 2000, a copy of a letter from the Virginia Department of Environmental Quality, Office of Environmental Impact Review, to PEPCO's counsel. According to the letter, the Department had determined that a coordinated environmental review of the Joint Application was unnecessary. On November 13, 2000, the City of Alexandria filed comments and requested a hearing on the Joint Application. By letter filed with the Clerk on November 27, 2000, the City of Alexandria withdrew its comments and request for a hearing.

The Staff filed on November 17, 2000, its report on the application. The Commission's Division of Energy Regulation determined that the proposed transfer would have no material adverse impact on the reliability of the electric system serving Northern Virginia and no adverse effect on rates of any regulated utility in Virginia. The Division of Energy Regulation recommended that the Commission approve the transfer and issue a certificate to SE-Potomac River. The Division of Public Utility Accounting recommended that the Commission grant approval under the Utility Transfers Act. By letter filed with

the Clerk on November 21, 2000, PEPCO and SE-Potomac River stated that they would not file comments on the Staff report. Upon consideration of the Joint Application and the record described, the Commission finds that no hearing or further investigation is required, and we may act on the application and petition.

The Transfers Act Petition

PEPCO acknowledges in the Joint Application that it is a "public utility" under the Utility Transfers Act, § 56-88 of the Code of Virginia. The generating and related facilities at the Potomac River Station and the land upon which they are located are "utility assets" as defined in § 56-88. As required by another provision of the Transfers Act, § 56-90 of the Code, the Commission may enter an appropriate order authorizing a transfer when we are "satisfied that adequate service to the public at just and reasonable rates will not be impaired" PEPCO does not serve retail customers in Virginia. According to the Joint Application, as discussed below, SE-Potomac River will operate the generating facilities to continue supporting local reliability and interconnection requirements. Based on the record and upon the advice of the Staff, the Commission finds that adequate service to the public at just and reasonable rates

will not be impaired by the transaction. The petition for authority under the Utility Transfers Act will be granted.

The Application for Certificates of Public Convenience and Necessity

In the Joint Application, PEPCO recognizes that it is a "public utility" as defined in the Utility Facilities Act, § 56-265.1 of the Code of Virginia. Since PEPCO proposes to retain ownership of all land at the Potomac River Station and to own and operate transmission facilities at that location, as well as at other locations in Virginia, it will remain a public utility after the proposed transaction. Likewise, SE-Potomac River acknowledges in the Joint Application that, under the Utility Facilities Act, it must have a certificate of public convenience and necessity authorizing the acquisition and operation of the generating and related facilities.

In the Joint Application, SE-Potomac River applied for a certificate under § 56-265.2 B of the Code. That provision provides, in part, that "the Commission . . . may permit the construction and operation of electrical generating facilities, which shall not be included in the rate base of any regulated utility" Pursuant to the same subsection B, SE-Potomac River also sought exemption from the provisions of Chapter 10 (§§ 56-232 et seq.) of Title 56.

SE-Potomac River also requested approval to operate the generating facilities as provided by § 56-580 D of the Code. In language similar to that in § 56-265.2 B of the Code, § 56-580 D provides that "[t]he Commission may permit the construction and operation of electrical generating facilities . . ." after making certain findings. As noted, the Commission directed the Staff and the applicants to address whether these provisions can be applied in this proceeding. Memoranda were filed on November 17, 2000.

In its memorandum, the Staff argued that the two provisions governed applications to construct generation facilities, and they could not apply in this instance. While PEPCO and SE-Potomac River requested approval under § 56-265.2 B and § 56-580 D, they acknowledged that applicability of both of these sections in this case was "unclear". The applicants stated that if the Commission found that these provisions did not apply to their application, they requested certification under another provision of the Utility Facilities Act, § 56-265.2 A of the Code. Upon consideration of the statutory language, the Commission finds that § 56-265.2 B and § 56-580 D are not applicable in this proceeding. We further find that a certificate may be issued to SE-Potomac River pursuant to § 56-265.2 A of the Code.

According to the Joint Application, PEPCO and SE-Potomac River will enter into an Interconnection Agreement (Potomac River) that will provide for interconnection of the generating facilities to PEPCO's transmission system. Power from the Potomac River Station will continue to be available for dispatch by PJM. PEPCO and SE-Potomac River will also enter into a Local Area Support Agreement. Under the Local Area Support Agreement, SE-Potomac River will provide local generation support to maintain reliability in the local area of the Potomac River Station and for loads on transmission lines connected to the Potomac River Station switchyard. Consequently, the Potomac River Station generating facilities will continue to support reliability.

The Potomac River Station has operated for over 60 years. While output from the facility has not been supplied directly to Virginia customers since 1986, the Potomac River Station has contributed to local reliability. Based upon the record and upon the advice of the Staff, the Commission finds that a certificate may be issued to SE-Potomac River to acquire and operate the generating facilities as proposed in the Joint Application upon the closing of the transactions. In addition, a new certificate showing facilities retained by PEPCO may then be issued.

In this proceeding, the Commission has limited its review and consideration of the Joint Application to authorizing the disposal and acquisition of generating facilities and the lease of land at the Potomac River Station and issuing certificates of convenience and necessity. The Commission has not reviewed the entire series of proposed transactions between PEPCO and Southern Energy, Inc., which are described in the Joint Application. The Commission has not considered and does not make any findings on the price paid for the assets involved in this proceeding, or any other assets sold by PEPCO to Southern Energy, Inc., and its subsidiaries or on the process that established these prices.

Accordingly, IT IS ORDERED THAT:

(1) Pursuant to the Utility Transfers Act, §§ 56-88 through 56-91 of the Code of Virginia, the joint petition of PEPCO and SE-Potomac River for authority to acquire and dispose of utility assets is granted.

(2) PEPCO is authorized to dispose of the assets summarily described in Attachment A of this Order Granting Application and Petition and fully described in the Joint Application and SE-Potomac River is authorized to acquire the same assets.

(3) PEPCO and SE-Potomac River are authorized to enter into the lease of the land, including the Building Addition, pursuant to the agreements included in the Joint Application.

To provide notice of its extent, the leasehold is described in Attachment B of this Order Granting Application and Petition.

(4) On or before February 2, 2001, PEPCO and SE-Potomac River shall file with the Clerk of the Commission a report of the acquisition of assets and lease of land authorized by this Order Granting Application and Petition.

(5) Pursuant to the Utility Facilities Act, §§ 56-265.1 through 56-265.9 of the Code of Virginia, SE-Potomac River's application for a certificate of public convenience and necessity is granted to the extent discussed above and otherwise is denied.

(6) Pursuant to § 56-265.2 A of the Code of Virginia, SE-Potomac River be issued a certificate of public convenience and necessity for the acquisition and operation of the generating and related facilities described in Attachment A and the lease of the land, including the Building Addition, described in Attachment B, upon the filing of the report required by ordering paragraph (4).

(7) Pursuant to § 56-265.2 A of the Code of Virginia, PEPCO be issued a certificate of public convenience and necessity for the transmission and other facilities it will continue to operate at the Potomac River Station, upon the filing of the report required by ordering paragraph (4).

(8) Case No. PUE000547 be continued for the issuance of the certificates described in ordering paragraphs (6) and (7) after the filing of the report required by ordering paragraph (4).

(9) Case No. PUA000078 is closed and dismissed from the docket.

Attachment A

Order Granting Application and Petition

Case No. PUE000547

Case No. PUA000078

Summary of Generating and Related Facilities to be Transferred

The Potomac River Station is a coal-fired generating facility of approximately 482 MW located in Alexandria, Virginia. Below is a summary of the generating facilities comprising the Potomac River Station that will be transferred:

- ◆ Five (5) steam generation units
- ◆ All generation related structures including
 - Main building housing the five generation units, administrative offices, shops, lockers, chemistry laboratory, visitor's center, lunch room and warehouse
 - Guard house
 - Coal yard office
 - Truck scales
 - Fuel oil unloading equipment
 - Ash storage and unloading facilities
- ◆ Step-up transformers
- ◆ Synchronizing breakers
- ◆ Existing fuel inventories
- ◆
- ◆ Coal handling facilities
- ◆
- ◆ Water intake and discharge structures
- ◆
- ◆ Spare parts inventory
- ◆
- ◆ Environmental Protection Equipment

Schedule 2.2(a)(ii) Spare Parts, Exhibit D and Schedule 2.2(a)(iii) Personal Property, IV) Potomac River Station of the Asset Purchase and Sale Agreement included in the Joint Application list the generating facilities and related equipment which will be transferred.

Attachment B

Order Granting Application and Petition

Case No. PUE000547

Case No. PUA000078

Description
of the
Aggregate Perimeter of the Various Lands in Assemblage
at
Potomac River Generating Station "C"
City of Alexandria, Virginia

Those Various Lands in Assemblage, southeast of the intersection of East Abingdon Drive and Slaters Lane, north of the Norfolk Southern Corporation railroad and west of the lands of the United States of America (Mount Vernon Trail) more particularly described as follows:

Commencing at the Point of Beginning; said point being an iron pipe set (1) (as shown on "Plat of Computation, Potomac Electric Power Company, a.k.a. Potomac River Generating Station "C", prepared by Greenhorne & O'Mara, Inc, last revised July 2000) at the northwesternmost corner of the Potomac River Generating Station "C" land assemblage, at the intersection of the eastern line of the Right of Way of East Abingdon Drive and the southern line of the Right of Way of Slaters Lane,

thence departing East Abingdon Drive and running along or near the southern right of way of Slaters Lane for the following three (3) courses, North $84^{\circ}21'36''$ East, a distance of 399.76 feet to an iron pipe set (2);

thence South $73^{\circ}24'09''$ East, a distance of 160.00 feet to an iron pipe set (3);

thence North $80^{\circ}49'18''$ East, a distance of 246.79 feet to an iron pipe set (4);

thence departing Slaters Lane and running along or near the lands of the United States of America for the following fifteen (15) courses, South $31^{\circ}20'06''$ East, a distance of 163.73 feet to a drill hole set in the concrete base of a fence post (5);

thence South $19^{\circ}01'30''$ East, a distance of 191.03 feet to an iron pipe set (6);

thence South $09^{\circ}34'08''$ West, a distance of 47.57 feet to an iron pipe set (7);

thence North $83^{\circ}24'17''$ West, a distance of 1.02 feet to an iron pipe set (8);

thence South $05^{\circ}47'05''$ West, a distance of 32.08 feet to a PK Nail set in the concrete base of a fence post (9);

thence South $17^{\circ}19'32''$ East, a distance of 80.09 feet to an iron pipe set (10);

thence South $17^{\circ}19'32''$ East, a distance of 19.93 feet to an unmonumented point inside the Screen House Building (11);

thence South $22^{\circ}15'57''$ East, a distance of 54.76 feet to an unmonumented point in the waters of the Potomac River (12);

thence South $09^{\circ}38'07''$ West, a distance of 4.97 feet to a scribed "X" set on the concrete deck of the Screen House Building (13);

thence South $23^{\circ}33'41''$ East, a distance of 52.70 feet to a scribed "X" set on concrete (14);

thence South $35^{\circ}13'03''$ East, a distance of 91.82 feet to a point at the end of the sheet piling (15);

thence South $03^{\circ}01'45''$ East, a distance of 27.69 feet to an iron pipe set (16);

thence South $13^{\circ}13'50''$ East, a distance of 724.15 feet to an iron pipe set (17);

thence South $09^{\circ}58'58''$ East, a distance of 290.42 feet to an iron pipe set, said iron pipe set being at the point of curvature of a non-tangential curve (18); from which the radius point bears North $04^{\circ}16'18''$ East;

thence 172.83 feet along the arc of said curve, concave to the north, having a radius of 723.28 feet, a central angle of $13^{\circ}41'27''$, a tangent of 86.83 feet, and a chord bearing and distance of North $78^{\circ}52'59''$ West 172.42 feet to a PK Nail set in the concrete base of a fence post (19); said point being at a point of curvature on a on a

non-tangential curve, from which the radius point bears South 54°51'48" West;

thence departing the lands of the United States of America and running along or near the northern right of way of Norfolk Southern Corporation railroad for the following two (2) courses, 139.73 feet along the arc of said curve, concave to the southwest, having a radius of 1005.37 feet, a central angle of 07°57'48", a tangent of 69.98 feet, and a chord bearing and distance of North 39°07'06" West 139.62 feet to a punch hole set in a metal track plate of the spur track of the railroad, (20), said point also being the point of tangency;

thence North 43°06'00" West, tangent to said curve, a distance of 1541.25 feet to an iron pipe set (21);

thence departing the northern right of way of Norfolk Southern Corporation railroad and running along or near the eastern line of the Right of Way of East Abingdon Drive, North 05°41'10" East, a distance of 394.19 feet to the Point of Beginning, said aggregate perimeter encompassing the Various Lands in Assemblage at the Potomac River Generating Station "C", said Various Lands being the lands described in Deed Book 188 and Page 484, Deed Book 191 and Page 259, Deed Book 191 and Page 334, Deed Book 212 and Page 158, Deed Book 227 and Page 184, Deed Book 263 and Page 520, Deed Book 329 and Page 158, Deed Book 1044 and Page 813, and lands of former public streets as vacated and abandoned by the City of Alexandria via ordinance numbers 297 and 672, and other lands of uncertain ownership.

This survey and description is referenced to bearings of record by C.J. Cross 3-25-1945 as recorded in the land records of the City of Alexandria in agreement with various other plats of record in Alexandria, including Deed Book 545 at Page 439 by the Department of Public Works, City of Alexandria.

Containing 25.36645 ACRES, more or less.

LESS AND EXCEPT:

Description
of the
Switchyard at Potomac River Generating Station "C"
City of Alexandria, Virginia

Commencing at the southwesternmost corner of the Potomac River Generating Station "C" land assemblage at the intersection of the northern line of the Norfolk Southern Corporation Right of Way and the eastern line of the Right of Way of East Abingdon Drive,

thence South 43°06'00" East, a distance of 246.31 feet along the southwesterly boundary of the assemblage to a perpendicular tie

thence departing the boundary North 46°54'00" East, a distance of 101.90 feet, to the Actual Point of Beginning, said point being the southwesternmost corner of the Switchyard herein described;

thence North 09°25'17" East, a distance of 444.25 feet;

thence North 29°40'23" East, a distance of 26.40 feet;

thence North 76°28'23" East, a distance of 21.62 feet;

thence South 80°16'54" East, a distance of 276.37 feet; point also being South 22°30'56" East 82.77 feet from an angle point in the northern boundary of the aforementioned assemblage and the southern line of the Right of Way of Slaters Lane

thence South 09°34'49" West, a distance of 27.00 feet;

thence North 80°25'13" West, a distance of 54.00 feet;

thence South 09°34'47" West, a distance of 29.59 feet;

thence North 80°25'13" West, a distance of 30.23 feet;

thence South 09°34'47" West, a distance of 29.33 feet;

thence South 80°25'13" East, a distance of 30.23 feet;

thence South 09°34'47" West, a distance of 162.63 feet;
thence North 80°25'13" West, a distance of 29.99 feet;
thence South 09°34'47" West, a distance of 169.37 feet;
thence South 80°25'13" East, a distance of 29.99 feet;
thence South 09°34'47" West, a distance of 109.96 feet;
thence North 68°53'14" West, a distance of 255.24 feet; to the
Point of Beginning, being the same area shown on a plat of
survey of the Switchyard by Greenhorne & O'Mara, Inc., dated
5/25/00 and titled "Plat of Computation, Potomac Electric Power
Company a.k.a. Potomac River Generating Station "C". This
survey and description is referenced to bearings of record as
recorded in the land records of the City of Alexandria.

Containing 2.78423 ACRES, more or less.

Description
of the
Administration Building
at
Potomac River Generating Station "C"
City of Alexandria, Virginia

Commencing at the southwesternmost corner of the Potomac
River Generating Station "C" land assemblage at the intersection
of the northern line of the Norfolk Southern Corporation Right
of Way and the eastern line of the Right of Way of East Abingdon
Drive,

thence South 43°06'00" East, a distance of 627.93 feet
along the southwesterly boundary of the assemblage to a
perpendicular tie

thence departing the boundary North 46°54'00" East, a
distance of 188.98 feet, to the Actual Point of Beginning; said
point being the southwesternmost corner of the Administration
Building,

thence North 09°30'20" East, a distance of 80.02 feet;
thence South 77°33'03" East, a distance of 1.02 feet;

thence North 09°27'43" East, a distance of 22.22 feet;
point also being South 80°34'41" East, 56.31 feet from the
southwestern corner of the existing Turbine Room,

thence South 80°34'41" East, a distance of 27.95 feet;

thence South 09°25'19" West, a distance of 4.47 feet;

thence South 80°34'41" East, a distance of 122.69 feet

thence South 09°30'11" West, a distance of 57.99 feet;

thence North 80°25'47" West, a distance of 21.53 feet;

thence South 09°29'07" West, a distance of 16.03 feet;

thence North 80°22'29" West, a distance of 29.49 feet;

thence South 09°34'08" West, a distance of 32.33 feet;

thence North 75°45'37" West, a distance of 100.95 feet; to the
Point of Beginning, being the same area shown on a plat of
survey of the Administration Building by Greenhorne & O'Mara,
Inc., dated 5/25/00 and titled "Plat of Computation, Potomac
Electric Power Company a.k.a. Potomac River Generating Station
"C". This survey and description is referenced to bearings of
record as recorded in the land records of the
City of Alexandria

Containing 0.31666 ACRES, more or less.

This Appendix B is intended to provide only general notice
of the extent of the leased property. The Commission does not
intend that it be used for any other purpose. The descriptions
of the leased land are found in Exhibit A and the Building
Addition, Exhibit A-1, of the "Site Lease Agreement" (Exhibit H
of the Asset Purchase and Sale Agreement filed as part of the
Joint Application) and in other parts of the Joint Application.